GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:6774
ANSWERED ON:10.05.2002
CONVERTIBILITY OF RUPEE
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Will the Minister of FINANCE be pleased to state:

(a) whether the World Bank has cautioned India on convertibility of rupee;

(b) if so, whether the World Bank has pointed out on some developing economies that liberalised suffered the disastrous consequences;

(c) whether the World Bank on globalisation favours a caution approach; and

(d) if so, the reaction of the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

a), (b), (c) & (d): The recent World Bank report `Globalization, Growth and Poverty (2002)` argues that while there are large and clear benefits from reducing trade barriers, exposure to world markets carries both benefits and considerable risks. Countries need good institutions and policies for strong and sustained benefits from financial integration. Without a sound domestic financial system, integration with global capital markets can lead to disastrous results as it did in Thailand, Indonesia and the Republic of Korea in 1997.

The Government of India has cautiously and systematicallymoved, over a period of time, from a comprehensive control regime to current account convertibility and market determined exchange rate. The Government has managed its capital account to ensure growth with stability, while consistently adding to its foreign currency reserves. At the same time the Government needs to guard against periods of exchange rate volatility like the one which had happened in East Asia. Under these situations, the Government follows a co-ordinated policy framework and careful calibration of policy instruments ensuring an effective management of capital flows without intolerable shocks to the performance of the economy.